



L1 CAPITAL

L1 Long Short Fund Limited Investor Update

**Mark Landau, Joint Managing Director and
Chief Investment Officer**

November 3, 2021



Performance has been strong with broad based stock contributors

Over the past year, the portfolio has returned 78%¹ and the LSF share price has increased by 93%.

The quality and breadth of performance has been pleasing.

- Positive returns from:
 - Long and short stock positions;
 - Domestic and international; and
 - Large caps and small caps.
- Key performance driver was numerous positive company updates.
 - Extremely broad-based performance: 28 stocks contributed >2% each to portfolio returns over the past year.
 - Portfolio construction was also a positive. Well-positioned for the reopening trade and higher inflation.

1

Performance Summary



Performance Summary



LSF has had an exceptional three years

Past year: Portfolio +78%¹, LSF share price +93%.

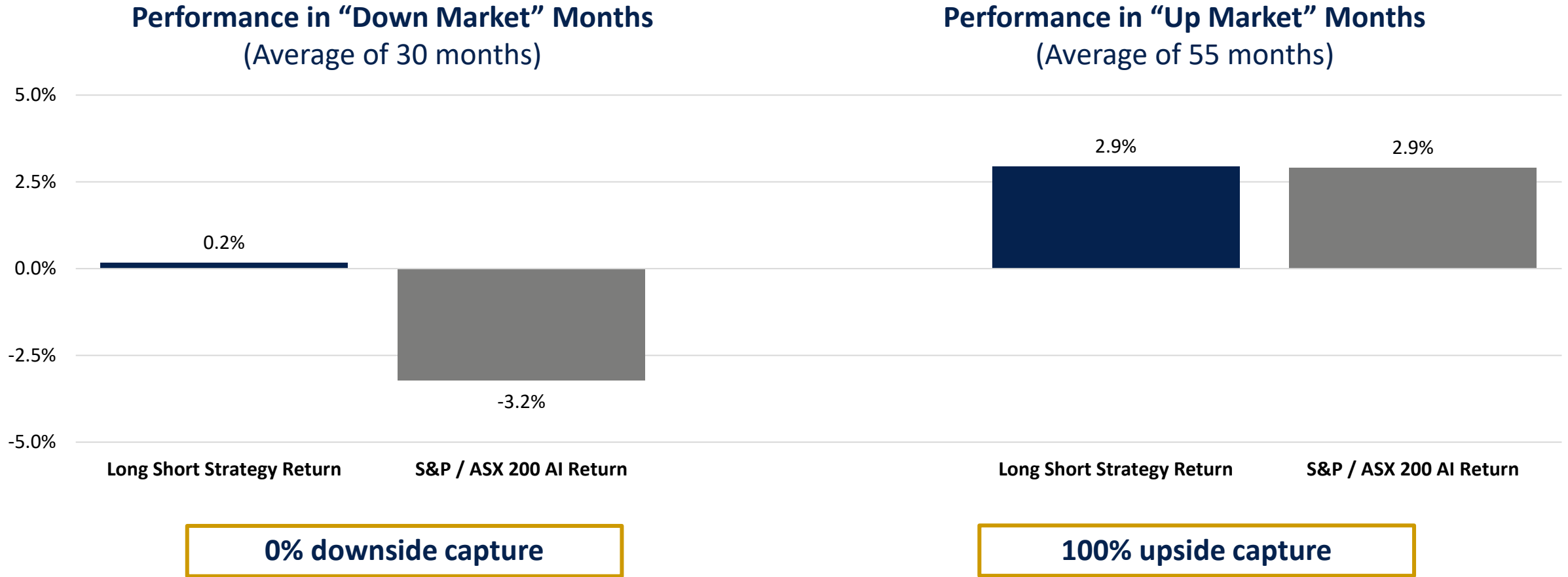
Pre-tax NTA Net Performance to 30 Sep 2021 (%)	L1 Long Short Fund	S&P ASX 200 AI	Outperformance
3 months	12.1	1.7	+10.4
6 months	22.0	10.1	+11.9
1 year	78.1	30.6	+47.6
2 years (p.a.)	34.9	8.3	+26.6
3 years (p.a.)	23.8	9.7	+14.1
LSF since inception (p.a.)	14.3	10.6	+3.6
LSF since inception (cumulative)	58.1	41.4	+16.7
Strategy since inception ² (p.a.)	23.8	8.2	+15.6

Strong absolute and relative performance over all time periods.

Strong Performance in Both Rising and Falling Markets



Since inception of the Long Short Strategy



2

Market Outlook



We expected the following trends to dominate financial markets in 2021. We believe these trends will continue.

Four key themes



Market Rotation

- Solid global GDP growth should lead to a continued rotation from:
 - Cash and bonds → Equities
 - Growth stocks → Value stocks
 - Defensives → Cyclicals



Reopening trade

- Many 'reopening winners' are trading at the same levels as 6-9 months ago, despite the outlook improving significantly.
- We expect to see accelerating operating metrics in 2022, which will allay investor concerns about the post-COVID world.



M&A Wave

- The market is set for a massive wave of M&A activity.
- Deal activity is being driven by improved corporate confidence, cheap debt and private equity.



Higher Inflation

- Upward pressure on inflation due to rising input prices, extreme monetary and fiscal stimulus and massive pent up consumer demand.
- Rising energy prices and an increasingly tight labour market suggest ongoing risk of higher inflation.

Market Rotation

Value stocks are set to recover after an extreme period of underperformance

- Since 2007, value stocks have endured the largest and longest period of underperformance ever on record.
- COVID-19 caused a spike in high P/E stocks, as investors sought safety in ‘COVID-winners’.
- **The recovery in value and cyclical stocks has been modest and has further to go (Chart 1).**
- The only other time that growth stocks have traded at such an extreme P/E premium was the dot com bubble (Chart 2).

LSF performance over the past 3 years has been particularly pleasing considering the huge headwind for value and contrarian investors, such as L1 Capital.

Chart 1: Growth vs Value – Relative performance

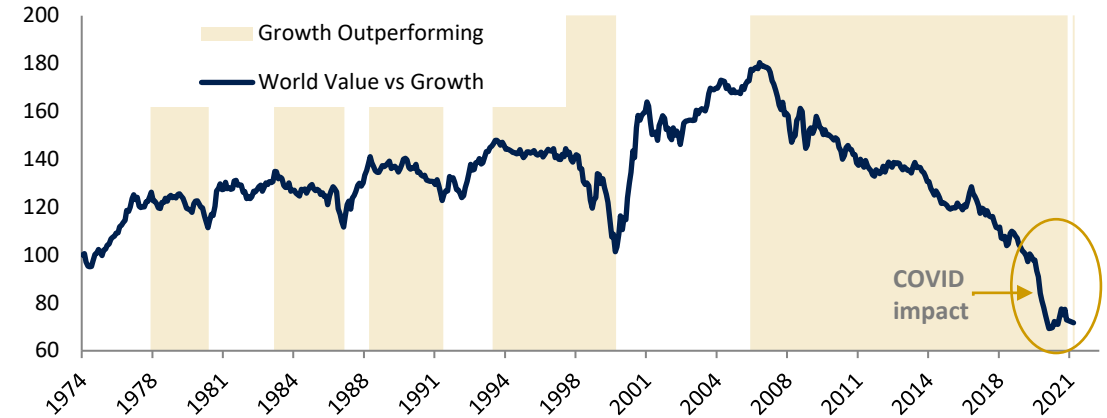
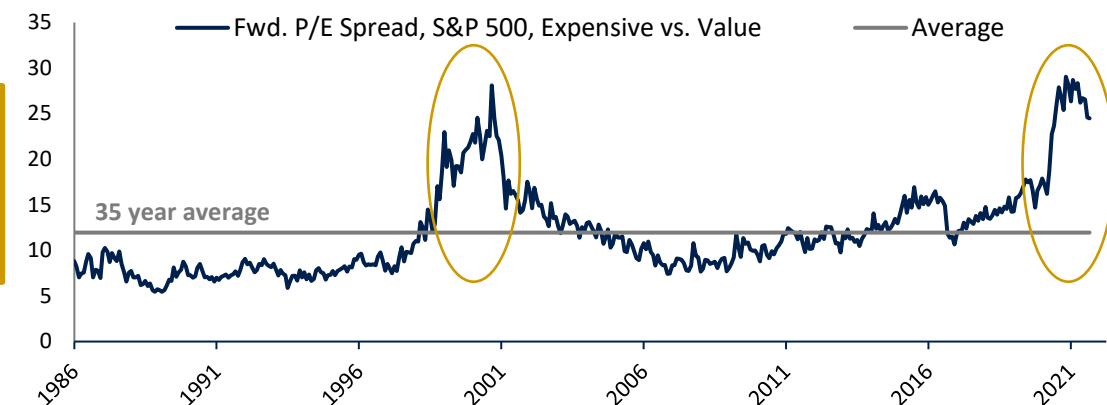


Chart 2: P/E premium of Growth vs Value (S&P 500)



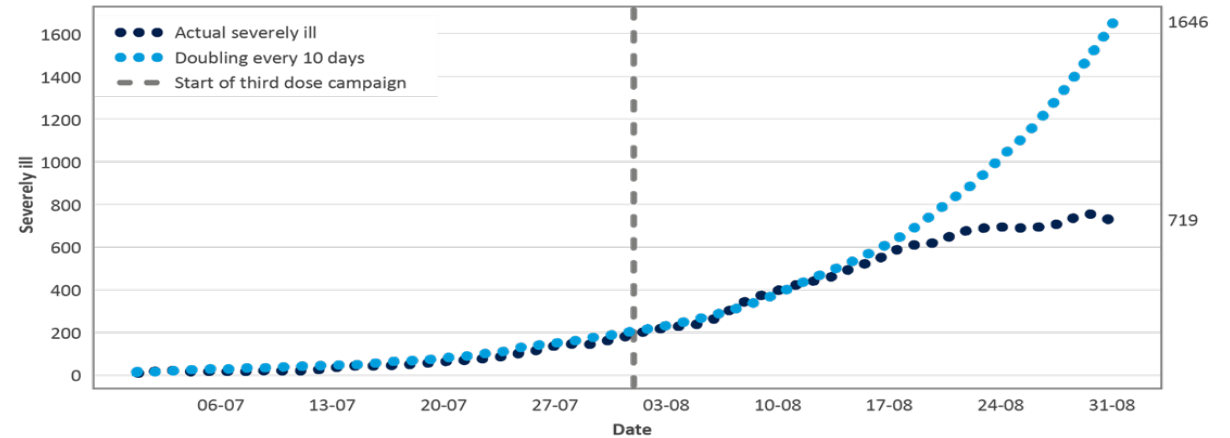
Reopening Trade

We remain positive on the ability for vaccines to control the pandemic

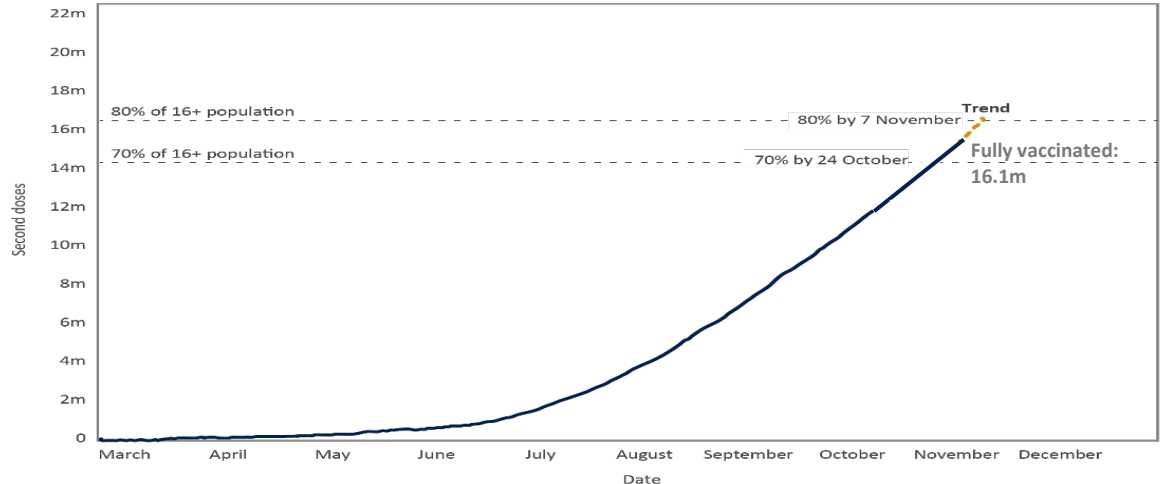
- Delta variant wave is a pandemic of the unvaccinated.
- Most OECD countries have largely reopened and we expect to see a positive inflection point in many hard-hit sectors.
- Israel has led the world in proving the high efficacy of COVID booster shots in reducing risk of hospitalisation or death.
- Australia is on track for >80% of the 16+ population (65% of total) vaccinated by early November.
- Encouraging data from Molnupiravir (anti-viral drug) and Fluvoxamine¹ (cheap SSRI drug) dramatically reducing hospitalisation and death from COVID-19.

Rising vaccination rates and improving treatment options suggest the reopening trade remains on track.

Israel: Total hospitalised patients



Australia: % of 16+ year olds vaccinated



M&A Wave

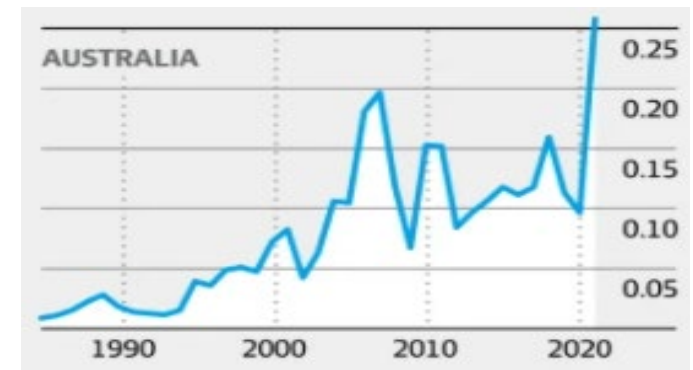
2021 has been the biggest year ever for M&A activity and there is no end in sight



M&A and corporate restructuring in Australia and globally is surging:

- Business confidence is high – strong EPS, undergeared balance sheets.
- Debt & equity is very cheap and easy to access.
- Massive pool of capital to be deployed from Private Equity and SPACs.
- Pent-up deal demand given many transactions delayed due to COVID-19.
- COVID-19 pressuring some sectors, leading to industry consolidation.
- ESG considerations are a further driver of deal activity.

M&A deals announced (USDm)



The Fund is well placed to benefit from increasing M&A activity, given our skew to undervalued companies with strategic appeal.

Higher Inflation



There are elevated risks that higher inflation will be more persistent than the market expects

From our analysis, significant increases in inflation are typically driven by (at least one) of three main factors:

- 1 Wage pressure:** Numerous sectors struggling to attract and retain staff.
- 2 Rising energy prices:** Energy market already tight and set to tighten further due to reopening.
- 3 High-capacity utilisation:** Supply chain tightness apparent across numerous products/sectors.

Implications:

- Higher inflation could prove more persistent than Central Banks predict.
- For the past decade, low inflation and falling interest rates have catapulted the valuation of bonds and growth stocks.
- A reversal of this trend should support a rotation from long duration to short duration assets.
- Historically, energy, gold, commodities and low P/E stocks tend to outperform in a higher inflation environment.
- These sectors are under-owned and are still trading 'cheap' versus the broader market.

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Portfolio Positioning & Themes



We are invested in four key themes that offer compelling, asymmetric risk-reward



U.S. Sports Betting

- **Exponential growth** likely for at least 5-7 years as the market opens to online sports betting and iGaming.
- **End market size is underestimated** due to in-play betting and iGaming growth potential.



Energy

- **New energy** – industry tailwinds from sustainability, including renewable energy, decarbonisation and electrification investment.
- **Old energy** – under-investment in oil (due to oil price crash & ESG pressure). Energy market to become increasingly tight over the coming year.



Vaccine Recovery

- **Vaccine success** has only partially been reflected in some share prices.
- Expect accelerating operating trends to lead to EPS upgrades and P/E re-rating.
- Some reopening stocks are trading at the same discount to market as 6 months ago, but the outlook is far better and the **inflection point in operating metrics is imminent.**



Corporate Restructure

- High quality businesses/assets within a conglomerate structure.
- Large undervaluation that provides a degree of capital protection.
- Clear intent to deliver value to shareholders via **transformational asset sales, de-mergers or capital management.**



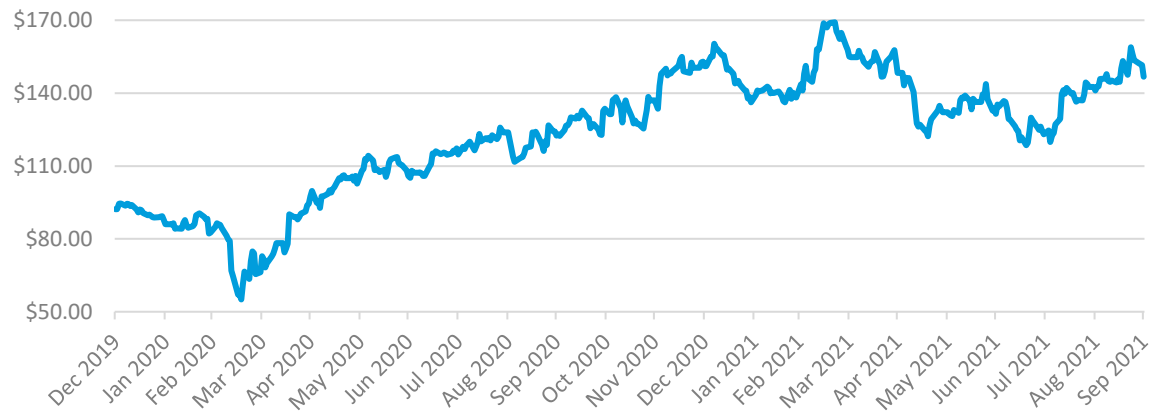
Theme 1 – U.S. Sports Betting

One of the most exciting, high growth industries globally

Flutter (FLTR – UK)

- #1 player in U.S. online sports betting and #2 in iGaming industry.
- Industry is very attractive: high growth, capital light, high ROE.
- Outstanding management team and track record of executing well (>40% market share in sports betting).
- P/E 25x FY23, 25-30% EPS growth p.a.
- Can sustain high growth rates for at least the next 5-7 years.

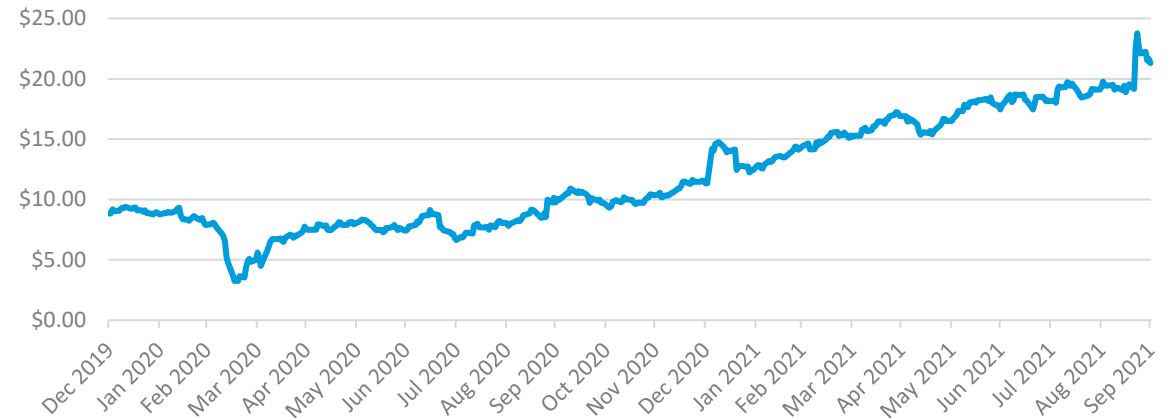
Share Price



Entain (ENT – UK)

- Entain's JV with MGM Resorts (BetMGM) is the 3rd largest player in U.S. sports betting and #1 in iGaming.
- Online business (ex U.S.) has potential to double over next 5 years.
- Significant strategic value – two proposed takeover bids this year (MGM in January 2021 and DraftKings in September 2021).
- P/E 17.5x FY23, ~25% EPS growth p.a. with exceptional growth runway.

Share Price



Theme 2 – Energy

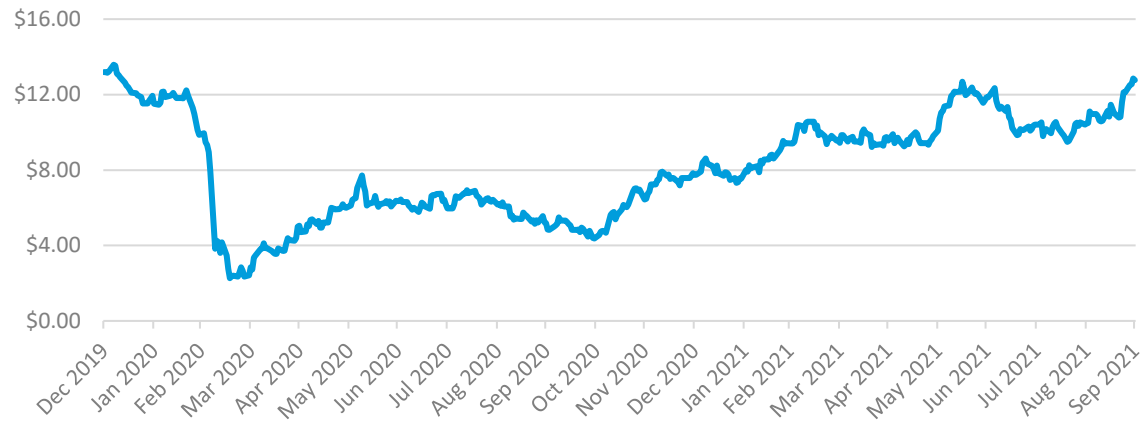


Both 'old energy' & 'new energy' stocks look attractive for different reasons

Cenovus Energy (CVE – USA)

- Recovering oil price is driving strong free cashflow generation on a year-to-date basis.
- Long life nature of oil sand assets and conservative expense management, indicates free cash flow break-even at an oil price of ~\$40 /bbl, far lower than current prices.
- Additional value realisation catalysts through net debt reduction after which the company can pursue capital management.

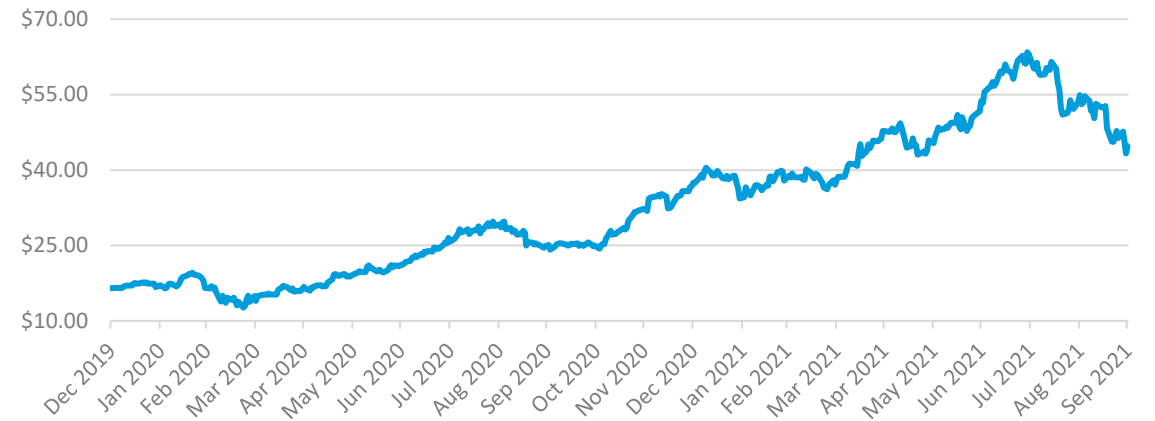
Share Price



Mineral Resources (MIN)

- All key areas of the business (iron ore, lithium and mining services) expected to have favourable medium-term tailwinds.
- Restart of Wodgina (one of the top 3 largest hard-rock lithium mines in the world) well timed to benefit from tight lithium market.
- High quality management team and accelerating operating cashflow profile.
- Adding two substantial iron ore growth projects and exposed to several exciting lithium projects (Wodgina, Kemerton, Mt Marion).

Share Price





Theme 3 – Vaccine Recovery

‘COVID losers’ will enjoy accelerating operating metrics in 2022 as Australia reopens

Qantas (QAN)

- Massive pent up travel demand, strong outlook for loads and yields, \$1b cost out program, Virgin reducing its route network.
- Management reiterated FY24 targets equal ~\$1 EPS = P/E 5.5x (fair value is 12-15x P/E). Over 100% share price upside if management can achieve their profitability targets.
- We believe the loyalty division (25% earnings) would trade on circa 30x P/E standalone.

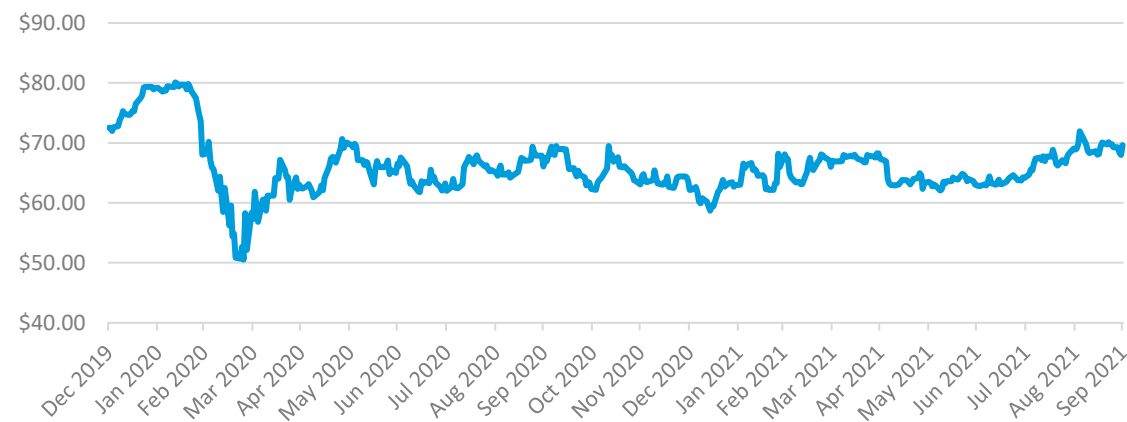
Share Price



Ramsay Health Care (RHC)

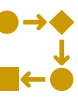
- Largest and highest quality private hospital group in Australia.
- P/E of 24x FY23 (once Covid impact normalises), strong earnings growth for next 3 years given brownfield expansion and extreme public & private sector wait lists.
- Owns ~\$10b+ of highly attractive property assets in Australia (2/3 of market cap). Potential for OpCo/PropCo deal.
- Undergeared balance sheet (1.1x Debt/EBITDA).

Share Price



Theme 4 – Corporate Restructures

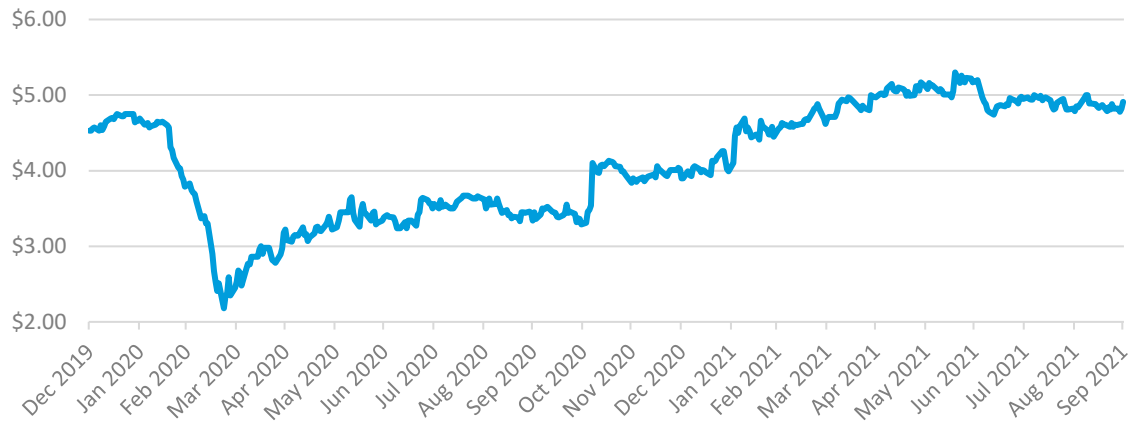
Many companies are set to restructure their business to highlight hidden shareholder value



Tabcorp (TAH)

- Monopoly lotteries business set to be demerged from Wagering division.
- Lotteries is a highly attractive, high growth, capital light business with long-dated licenses.
- Wagering division has received 3 takeover bids in the past year.
- Lotteries has strategic appeal to unlisted infrastructure investors at much higher valuations than implied in current share price.

Share Price



News Corp (NWS)

- Strong operating momentum and long growth runways for 3 core segments: Digital Real Estate, Dow Jones and Book Publishing.
- Management making progress on transitioning Foxtel business to capital-lite, streaming-led model, which creates IPO optionality.
- Shareholder returns to benefit from an increased focus on free cash flow generation, portfolio and cost rationalisation, share buybacks and targeted M&A.

Share Price



Key Portfolio Contributors and Detractors



Portfolio remains fresh and has been rotated to reflect our highest conviction ideas

Company name	Company news
Z Energy	✓ Takeover offer from Ampol at a 35% premium to the unaffected share price (prior to deal speculation).
Wells Fargo	✓ Improving operational performance and falling bad debts. Position exited post 50%+ rally in 6 months.
Canadian Natural Resources	✓ Focused management team and low all-in cost structure supporting rapid de-gearing at prevailing oil prices.
Treasury Wines	✓ Bought into TWE around \$8 after market over-reaction to China tariff news. Management then demonstrated an ability to reallocate their wine portfolio & offset some China impact. Position exited at a ~50% gain.
Telstra	✓ Return to underlying earnings growth led by improving Mobiles segment and cost initiatives. Monetisation of towers portfolio with potential for further restructuring benefits ahead. Shares rallied from \$2.80 to \$3.90.
Teck Resources	✓ Strong operating performance along with rising copper, coking coal and zinc prices.
Downer	✓ Strong full year result and sale of non-core assets delivered a P/E re-rating. Position exited.
Star Entertainment	✗ Shares sold off heavily after negative media coverage on AML controls. Added to our position post share price fall, which we viewed as excessive.
Aurizon	✗ Shares declined after purchasing One Rail Australia. We viewed the transaction negatively and sold down the position.

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Corporate Update



Over the past year, we have seen the discount reduce significantly, due to a range of positive drivers

The discount to post-tax NTA has narrowed from 23% to 3%¹.

Performance: Consistent strong performance from 2019-2021.

Buyback: Aggressive on-market share buy-back:

- The Company bought back 28m LSF shares (~\$53 million) at an average price of \$1.89 per share, representing ~6% of end issued capital (over past 12 months).

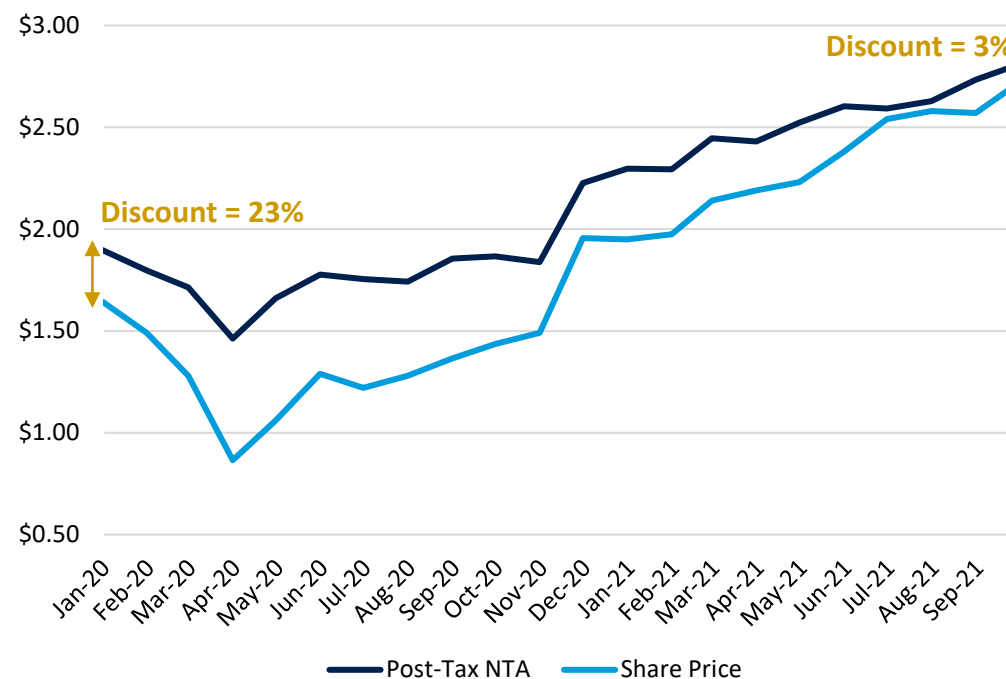
Dividends: The Company declared two fully franked dividends:

- Inaugural dividend of 1.5 cents per share (Feb 2021).
- Second dividend of 3.0 cents per share (Aug 2021).

The Company remains well-positioned to continue to deliver a sustainable and growing dividend profile.

Director Buying: Senior L1 team has purchased 8.4m LSF shares on market (over past 12 months), in addition to the reinvestment of performance fees.

LSF share price and post-tax NTA – 12 months to 30 Sep 21

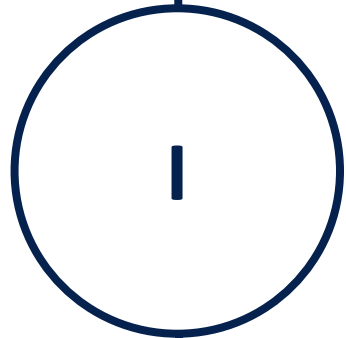


Positive feedback regarding LSF performance, buyback activity, growing fully franked dividends and insider buying.

1. Between Jan 1, 2020 to Sept 30, 2021. Source: Discount based on Mainstream Fund Services as at 30 Sep 2021.

- 1 The portfolio has performed very strongly in 2019 (+25%), 2020 (+30%) and 2021 YTD (+32%).**
- 2 There are four market trends that we believe will continue to dominate markets: Market Rotation, Reopening Trade, M&A Wave and Higher Inflation.**
- 3 We see four themes that offer compelling, asymmetric risk-reward at present: U.S. Sports Betting, Energy, Vaccine Recovery and Corporate Activity.**
- 4 The share price discount to post-tax NTA has been largely closed, ensuring that shareholders benefit from the rising NTA. The Company remains well-positioned to deliver a sustainable and growing dividend profile.**

We remain excited about the opportunities in the market at present, given the large number of portfolio stocks with significant upside to valuation.



Appendix

Overview of L1 Capital



Specialist investment manager founded by Mark Landau & Rafi Lamm in 2007

- ‘L’ – Derived from the surnames of the founders (Lamm & Landau).
- ‘1’ – Genuine firm-wide aspiration to be the “best”, not just “good”.
- Reputation for investment excellence and best of breed investment funds.
- All L1 Capital funds have delivered outstanding returns versus benchmarks and peers.
- Diverse client base – large superannuation funds, pension funds, asset consultants, financial planning groups, family offices, high net worth investors and retail investors.

People



Proven, high calibre and stable team

Integrity



Ethical and professional in all respects

Ownership



100% owned by senior L1 staff

Alignment



L1 staff invested alongside clients

Global Investment Manager



Well resourced and experienced team across investments, operations, compliance and investor relations

Business Overview

- Founded in 2007
- A\$5b FUM
- 5 offices globally



L1 Capital staff by function:

20 Investments

11 Operations & Compliance

8 Distribution & Client Service

L1 Capital Funds



Investment Excellence – Outstanding performance since inception across all strategies

Long Short Fund

23.8% p.a. net return S.I.
(ASX200AI 8.2% p.a.)¹

Best performing Australian hedge fund since inception²

>25% p.a. net return in 6 out of 7 calendar years³

EUREKAHEDGE
Ranked Top 5 for returns in
2021 for large APAC-based HFs.

ZENITH RATING
'Recommended'

LONSEC RATING
'Recommended'

Melbourne

Sep 2014

Global Opportunities

37.1% p.a. net return p.a. S.I.

One of the best performing hedge funds globally since inception

No down months since inception in 2015.

HSBC SURVEY
'Top 20 Hedge Fund Globally' in 2017, 2018,
2020 and YTD 2021⁴

Miami

Jun 2015

International Equities

19.7% p.a. net return S.I.
(MSCI World 16.1% p.a.)

Strong absolute & relative performance

Consistent outperformance in falling markets

ZENITH RATING
'Recommended'

LONSEC RATING
'Recommended'

Sydney

Mar 2019

Australian Equities

2.9% p.a. net outperformance of
ASX200AI S.I.

Top quartile performance since inception⁵

ZENITH RATING
'Highly Recommended'

LONSEC RATING
'Recommended'

Melbourne

Aug 2007

Catalyst

14.4% net outperformance of
ASX200AI S.I.

**High conviction activist strategy
Strong early performance**

ZENITH RATING
'Recommended'

LONSEC RATING
'Recommended'

Melbourne

Jul 2021

U.K. Residential Property

5.4% p.a. net distribution yield on
U.K. Fund I⁶

Achieving target yield and strong capital growth despite Brexit and pandemic headwinds

London

Sep 2017

Note: Performance data current as at 30 Sep 2021 except where marked. 1. L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). 2. Zenith & FE Investment performance database. 3. 2021 reflects calendar YTD. 4. According to HSBC Alternatives Hedge Week Surveys. 5. Ranking in FE Analytics Australian Shares universe over 14 years. 6. Hedged Class of L1 Capital U.K. Residential Property Fund I to 30 June 2021. Past performance should not be taken as an indicator of future performance.

Competitive Edge



A highly aligned and proven team that drives performance through differentiated research

Track Record

Best performing hedge fund in Australia since inception in 2014¹.

Quality Research

Differentiated company, industry and macro research (e.g. vaccine).

Independent Thinking

Low correlation with other fund managers and typically not in crowded positions.

Sound Judgement

Unemotional investment approach and track record of taking advantage of market volatility and dislocations.

Alignment

Investment team has the majority of personal wealth invested alongside shareholders.

Important information

L1 Long Short Fund Limited



L1 CAPITAL

L1 Long Short Fund Limited has been established to invest in a portfolio of predominantly Australian and New Zealand securities, with up to 30% invested in global securities. The Company has the ability to both buy and short-sell securities, which provides a flexible strategy to deal with changing stock market conditions. The objective is to deliver strong, positive, risk-adjusted returns to investors over the long term. The portfolio is managed by L1 Capital Pty Ltd, which has established a reputation for offering clients best of breed investment products. L1 Capital manages money for a range of clients including large superannuation funds, pension funds, financial planning groups, asset consultants, family offices, high net worth individuals and retail investors.

Disclaimer

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